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State wins on property tax but confusion on inheritance rules

Jill Kerby

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ONE of the great ironies of our perpetually dysfunctional property market and the housing/rental crisis into which it has morphed is that the state is reaping a tidy tax windfall out of it.

So far this year, according to the latest, pre-Budget Exchequer tax estimates, capital acquisition tax, or inheritance tax has come in at nearly €500m.

This is twice what was raised in 2010 when the inheritance tax exemption levels were about €100,000 higher between parent and child and the great property value slide was under way. (Before the property crash the parent/child tax-free limit was c€550,000.)

All the government would have to do now to make a real killing on the property market would be to re-introduce the sort of eye-watering levels of Stamp Duty that applied before the crash and/or hike property tax rates. Even doubling the ludicrously low original 0.18% rate (which has been reduced by many local authorities and is only going to rise in 2020) would add many extra hundreds of millions of euro to the coffers. (About €460m will be raised this year; many valuations date back to 2013.)

Today, the surge in property values, especially in Dublin and the other cities and their suburban orbits, means the state is again raking in a fortune - a fortune that most property owners would prefer to leave to their children and grandchildren, according to Irish Life, which has published the results of its latest survey into our attitudes towards inheritance.

According to the life and pensions company, 20% of over 55s expect to leave at least €500,000 in assets - mostly property as well as qualifying pension funds and cash to their families; 50% expect to leave assets worth at least €100,000.

The current inheritance tax rate is 33% of any value that exceeds the three tax-free thresholds: Group A between parents and children - €310,000; Group B between lineal descendants such as brothers, sisters, nieces and nephews at €32,500 and Group C - between strangers, €16,250.

With house prices in the Dublin area nearly back to 2007 levels, this is where the windfalls are the most substantial for families and the state.

Which is why a review and some forward estate planning isn't a bad idea before next month's budget, when it is anyone's guess whether capital acquisition tax (CAT) thresholds will be further adjusted upward to reflect the continuing rise in property and per capita household wealth, not set at €151,650 by the CSO.

A surprise that emerged from Irish Life's timely survey is that the vast majority of participants (up to 84%) have no idea what the tax-free thresholds are or the tax rate. Up to 50% mistakenly believe that the family home is exempt from CAT.

Only a spouse inherits entirely tax-free, but under what it known as 'Dwelling House Relief' anyone who has lived with the owner of a property continuously for the previous three years as their main residence and who has no other interest in any other property may inherit it tax-free so long as the disponer has made a legal will naming them as the beneficiary.

They must also keep the property for at least six years, but should they sell it before then only the proceeds that go towards another residence will remain tax-free.

Property can be a very tricky asset to pass on, especially if you haven't made a will but your intention may have been to protect the interests of someone who may have been living with you or you may have only wanted to have a lifetime's interest in the house after your death.

Dying 'intestate' means the Succession Act 1965 prevails and your family home, along with the proceeds of life insurance policies, pension funds (like an ARF - Approved Retirement Fund), cash and any other property or valuables will be subject to those rules.

Specifically where there are no children the entire estate goes to a spouse; where children are present, 2/3rds goes to the spouse and the remaining 1/3rd equally to them.

Parents are the sole inheritor where the deceased is single if they haven't made a will, and then their siblings if there are no parents, and nieces and nephews if there are no siblings, etc.

Disinheriting a child where there is a will, can throw up all kinds of difficulties, but a more common problem say financial advisers are the tax complications that arise quite frequently in the estates of Irish people who may have lived abroad and may still have some financial interests outside Ireland.

Pensions, investments and property still held in the myriad of countries where the Irish diaspora worked or even retired to, could end up subject to very different disposal rules and taxes.

If any doubt, consult a good solicitor and knowledgeable tax adviser.

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State wins big on property tax as confusion reigns on inheritance

JILL KERBY
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(Letters to jill@jillkerby.ie The TAB Guide to Money Pensions & Tax 2018 is available in all good bookstores. See www.tab.ie for ebook edition.

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Money Times - with Jill Kerby

State wins with property tax but there's confusion over tax free inheritance rules

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other property or valuables will be subject to those rules.

Specifically, where there are no children the entire estate goes to a spouse; where children are present, two-thirds goes to the spouse and the remaining third equally to them.

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